

# **FY2013 Presentation to JFAC**

February 13, 2012

# Opening Remarks

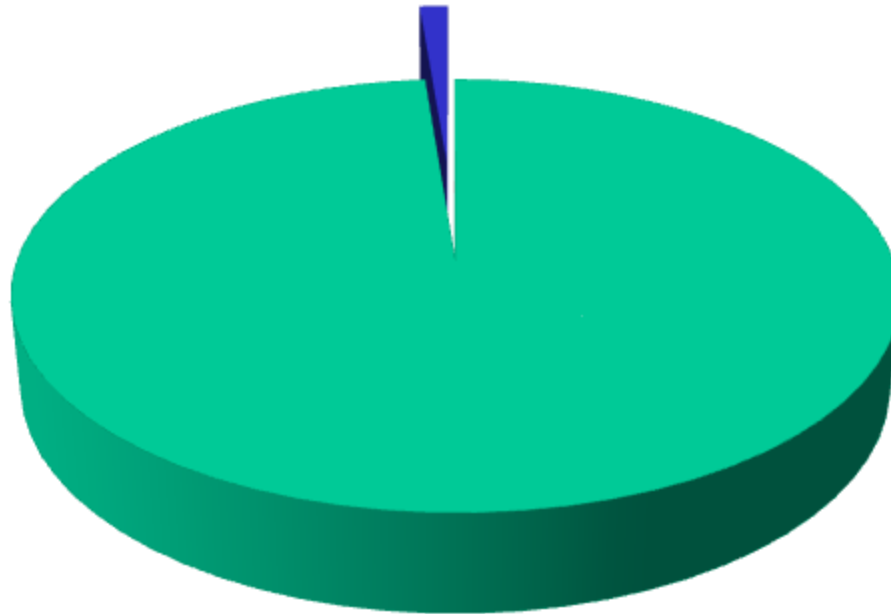
Commissioner Rich Jackson

# FY2011 Revenues vs. Cost of Collecting

**Approx. \$99 raised per \$1 of budget**

■ Revenues: \$3.1 billion

■ Cost to collect: \$31.8 million



# Historical Numbers on Receipts

Fiscal Year	Voluntary Compliance	Audit & Collections	STC Cents Per Tax Dollar	Number of Employees*	Items Processed
2003	\$2,154,350,239	\$120,433,902	1.17	412	1,981,073
2004	\$2,425,394,312	\$136,267,007	1.13	406	2,046,170
2005	\$2,722,262,271	\$130,253,514	1.07	411	2,117,250
2006	\$2,864,221,113	\$165,761,547	1.05	411	2,203,846
2007	\$3,279,377,189	\$162,541,346	0.94	414	2,194,527
2008	\$3,394,158,462	\$197,309,215	0.93	414	2,295,772
2009	\$2,998,735,652	\$164,270,000	1.04	414	2,217,272
2010	\$2,777,284,165	\$173,410,000	1.10	414	2,226,000
2011	\$2,955,957,988	\$182,090,323	1.01	397	2,260,700
<b>Growth %</b>	<b>37.2%</b>	<b>51.2%</b>	<b>-13.7%</b>	<b>-3.6%</b>	<b>14.1%</b>

\* Total full-time authorized employees, including the Property Tax division.

# Resources

## Workforce

- 73% of budget
- Turnover
- 54% of workforce 50+ years of age
- Only 7 employees are at policy or higher (less than 2%)
- Higher vacancy rate
- Knowledge gap

Zero-based budgeting this year

Limited infrastructure capital in recent years

# Communication, Collaboration, Outreach

- Four working together, managing together
- Internal communications improved
- Reopened the field offices
- JFAC tour of Tax Commission
- Counties – communication, support

# **Keeping Up With Technology in Tax Administration**

Doreen Warren  
Division Administrator  
Revenue Operations

# Tax Administration

- Deposit revenue within 24 hours
  - \$1.4 billion annually in paper payments to the state of Idaho
  - 800,000 checks annually
- Process 2.1 million tax documents

# Tax Administration

- Administer 17 tax types
  - Deposit revenue
  - Issue permits
  - Maintain taxpayer database
  - Process returns
    - Revenue distribution
    - Audit and Collection activities

# Using Technology

- Encourage electronic filing
- Imaging
  - Two-platform
    - Full-page
    - Coupon-sized and payments
  - Data capture
- Integrated tax processing system

# Current Risks

- The two machines that process all physical payments and coupon-sized returns are at the end of their effective life.
- Windows XP will not be supported by Microsoft by April 2014.
  - We are maintaining two operating systems.

# The Solution



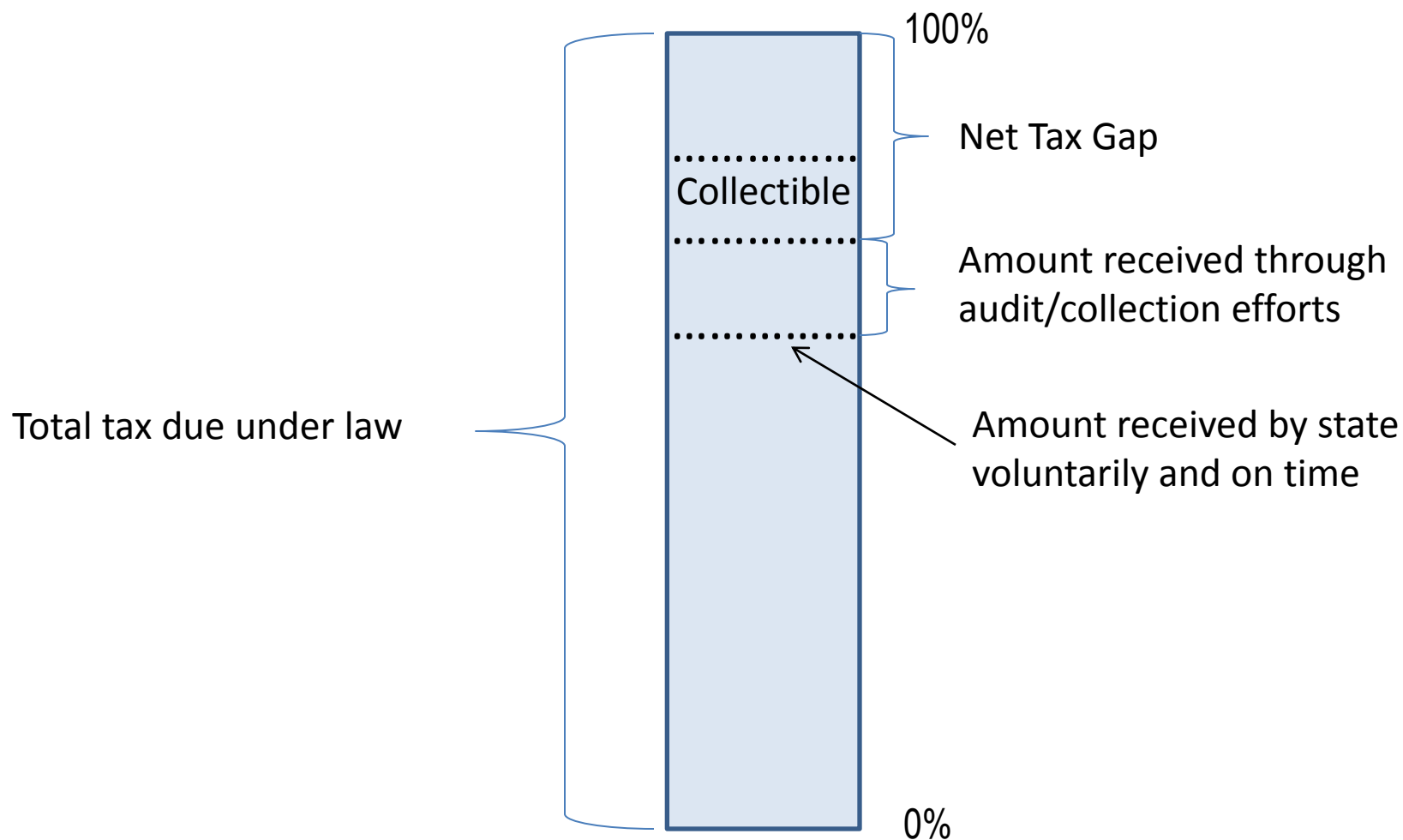
# Greater Efficiency

- Uses existing equipment and upgrades software, rather than buying replacements
- Provides the State Treasurer with \$110,000 in additional interest earnings annually
  - At 2% interest rate
- Processing and field office deposit efficiencies
  - Generate \$70,000 more revenue annually

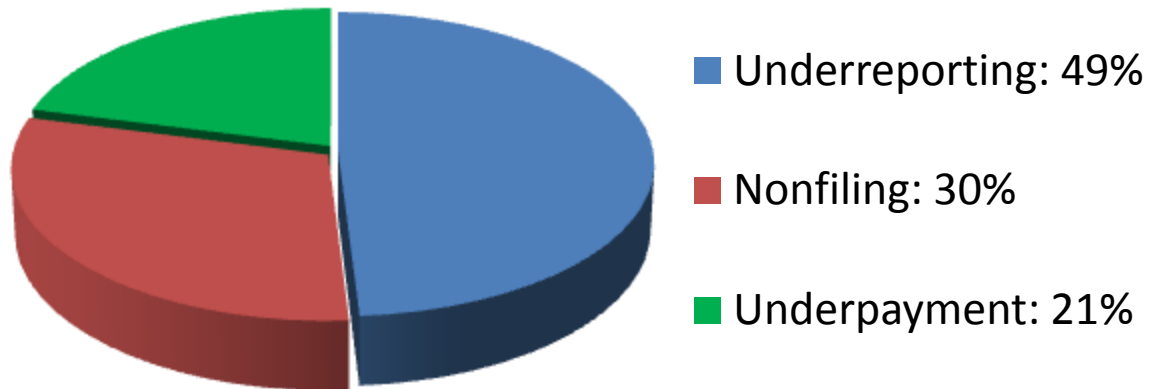
# **Closing Idaho's Tax Gap: From Theory to Reality**

Commissioner David Langhorst

# Idaho's Tax Gap



# Why is There a Tax Gap?



# Estimating the Tax Gap

## Theory

- Tax gap study, 2009
- Collectible amount estimate: \$76.5 million

## Empirical Evidence

- ISTC staff results vs. # cases available
- Collectible amount estimate: \$64.5 million

## Conclusion

- We can help! (Increase revenue without raising taxes.)
- Return on investment > 7 to 1

# “The Governor’s Challenge”

## **Fiscal Year 2010 (CI 10)**

## **Return**

- New revenue: \$20.5 million
- Cost: \$1.4 million

14.7 to 1

## **Fiscal Year 2011 (CI 11)**

- New revenue: \$26.3 million
- Cost: \$1.5 million

17.1 to 1

## **Fiscal Year 2012 (CI 12)** (projected)

- New revenue: \$8.6 million
- Cost: \$845,978

10.2 to 1

# “The Governor’s Challenge”

Year	Investment	Revenue	Return on Investment
FY2010	\$1,392,166	\$20,488,862	14.7 to 1
FY2011	\$1,539,619	\$26,330,335	17.1 to 1
FY2012 (projected)	\$845,978	\$8,600,000	10.2 to 1
<b>TOTAL</b>	<b>\$3,777,763</b>	<b>\$53,699,197</b>	14.2 to 1

# **“The Governor’s Challenge”**

## **Observations**

The Tax Gap is real – returns were realized

The Tax Commission is more “right-sized”

- Leaving less revenue on the table
- Benefits are ongoing, but variable

We have broadened the tax base

- A more fair and equitable tax system

Increased voluntary compliance

- Perception of fairness
- Publicity

# Property Tax

Commissioner Tom Katsilometes

# Property Tax Division

## 63-105A: Powers and Duties

Ensure fair, equitable, and accurate assessments

- \$107 billion taxable value
- \$1.4 billion in taxes

# Property Tax Division

- Oversee more than 1200 taxing districts  
(e.g. school, highway, mosquito abatement)
- Appraise operating properties
- Provide training for county elected officials  
and other professionals
- Administer property tax reduction program  
("Circuit Breaker")
- Improve working relationship with counties

# **Budget for FY2013**

## **Governor Otter's Recommendation**

Mark Poppler  
Fiscal Officer

# FY2013 Budget

Supplemental Recommendations	\$ 452,700
<b>FY2013 Base</b>	<b>\$33,514,500</b>
Benefit Costs	\$ 501,000
Inflation	\$ 23,800
Replacement Items	\$ 103,600
Interagency Items	<u>\$ (51,600)</u>
<b>FY2013 Maintenance</b>	<b>\$34,091,300</b>
Upgrade Revenue Deposit Process	\$ 637,900
Phase 3 Made Permanent	\$ 817,300
Zero-based Budget Adjustments	<u>\$ 0</u>
<b>FY2013 Governor Rec.</b>	<b>\$35,546,500</b>

**Legislative Budget Book, Pages 6-143 to 6-151**

# Supplemental Recommendations for FY2012

## \$452,700

- \$65,400 Spending authority to administer Idaho Falls Auditorium District
- \$250,000 Litigation support for complicated, multi-state audit issues. Ongoing MTC fund authority requested
- \$137,300 Federal funds via the Idaho Dept. of Transportation to augment fuels tax compliance

**Legislative Budget Book, Pages 6-147**

# FY2013 Budget Components

- Personnel: 73.4%      \$ 26,099,200
- Operating: 26.1%      \$ 9,256,000
- Capital: 0.5%      \$ 191,300
- Total: 100.0%      \$ 35,546,500

# Where Does Operating Go?

## FY2013 Estimate (millions)

• Facilities leases	\$2.2
• Software/hardware maintenance	\$1.8
• Interagency shared costs (SWCAP)	\$1.3
• Postage costs	\$1.3
• Travel costs	\$1.0
• All other	\$1.2
• <b>Maintenance Budget</b>	<b><u>\$8.8</u></b>
• One-time items	\$0.5
• <b>Total Budget</b>	<b>\$9.3</b>

# Capital Items

## \$191,300

- \$76,400 for the Revenue Deposit Process upgrade, of which \$61,800 is General Fund
- Replace only critical equipment as it fails or as it becomes unable to meet minimum performance standards
- Other than Revenue Deposit Process upgrade, dedicated funds only
- Total replacement items recommended: \$103,600

# FY2013 Line Items

- Phase 3 Made Permanent \$ 817,300
  - 16.5 temp positions to permanent
- Upgrade Revenue Deposit Process \$ 637,900
  - Primarily software driven
  - Includes implementation of Check 21
- Zero-based Budget Adjustments \$ 0
  - No net cost involved

# FY2013 Compliance Initiative Plan

## Phase 3

- Make majority of FY2012 temporary staff permanent
  - Budget recommendation of \$817,300 (LBR 6-149)
  - 16.5 FTEs for a full year
    - 13.5 of these are in Audit and Collections
    - 3.0 positions are in Revenue Operations
  - Future phases not yet determined

# FY2013 Upgrade Revenue Deposit Process

Eliminate aging hardware and protect ability to deposit revenue within 24 hours

- Budget recommendation of \$637,900 (LBR 6-149), \$516,500 is general fund | \$55,100 ongoing, of which \$44,800 is general fund
- Solution is largely software driven, using different equipment already owned
- Improves processes and increases efficiencies
- Allows implementation of Check 21, providing additional interest income to the State
- \$76,400 of recommendation is capital, of which \$61,800 is General Fund

# Zero-based Budget (ZBB) Results

- Idaho State Tax Commission went through the formal ZBB process for the FY2013 budget cycle
- Extensive effort to review processes, services, and related costs
  - Identification of over 100 specific services/functions
  - Explanation, justification, and ranking of each required duty
- Key results determined by management
  - Align personnel budget to required positions (line 5)
  - Transfer 3.5 positions into critical support functions (line 6)
  - Return 8 Taxpayer Service positions to Audit & Collections (line 7)
- Normal, continuous process of management

# Closing Remarks

Chairman Bob Geddes

## **Responsibility and Accountability**

- Provide effective customer service to taxpayers
- Maximize efficiency in achieving tax compliance
- Collect appropriate revenue as required by law
- FY2011 Audit (CAFR) – no findings

## **Workload**

- Never stops, never even slows down
- Requires expertise, skill, dedication

## **Factors for success**

- People – retain, recruit, reward
- Technology – critical needs, in any economy

**Thank you.**

**Questions?**